

Message Text

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ACTION EUR-12

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SSO-00 USIE-00 INRE-00 SP-02 AID-05 EB-08 SS-15
STR-07 OMB-01 CEA-01 COME-00 FRB-01 INR-10 XMB-04
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FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 4224
TREASURY DEPT WASHDC IMMEDIATE

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TREASURY PASS WIDMAN AND SYVRUD

E.O. 11652: N/A
TAGS: EFIN, UK, EGEN
SUBJECT:

SUBJECT: CALLAGHAN'S FINANCE HOUSES ASSOCIATION SPEECH

SUMMARY: THE FOLLOWING IS AN EXCERPT FROM CALLAGHAN'S
MARCH 14 SPEECH TO THE FINANCE HOUSE ASSOCIATION. IT
INCLUDES ALL OF THE PRIME MINISTER'S REMARKS ON INTER-
NATIONAL ECONOMIC MATTERS. END SUMMARY.

1. ... OUR DOMESTIC ECONOMY IS BEGINNING TO GROW. OUR
STANDARD OF LIFE IS BEGINNING TO IMPROVE.
2. IT IS THE WORLD ECONOMIC OUTLOOK THAT IS SLUGGISH
AND COULD HOLD BACK ALL OF THE MAJOR COUNTRIES.
3. SINCE THE EARLY 1970S THE WORLD HAS BEEN SUFFERING
FROM AN ECONOMIC MALAISE. THE DOCTORS DON'T WHOLLY
AGREE ABOUT THE CAUSES BUT A NUMBER OF SYMPTOMS CAN BE
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4. FIRST, THE UNPRECEDENTED WORLD-WIDE INFLATION OF THE
EARLY 1970S SAPPED BUSINESS CONFIDENCE THROUGHOUT THE
WORLD AND FORCED GOVERNMENTS, OFTEN AGAINST THEIR WILL,
INTO RESTRICTIVE FISCAL AND MONETARY POLICIES. SAVINGS
RATIOS ROSE AND INVESTMENT PLANS WERE CUT BACK, WITH A

CONSEQUENTIAL LOSS OF JOBS.

5. SECOND, THE OLD CERTAINTIES OF THE BRETTON WOODS FIXE EXCHANGE RATE SYSTEM BROKE DOWN AND WERE REPLACED WITH THE MAKESHIFTS OF THE PRESENT FLUCTUATING REGIME. THE PRINCIPAL RESERVE CURRENCY IN THE WORLD HAS CEASED TO HAVE A CONSTANT STORE OF VALUE -- AN ATTRIBUTE THAT IS THE FIRST CONDITION FOR A STABLE MONETARY SYSTEM.

6. THIRD, THE VAST OPEC SURPLUSES, \$60 BILLION IN 1974 AND \$35 BILLION IN 1977, MUST BE MATCHED BY DEFICITS IN THE REST OF THE WORLD. WE LIVE IN A WORLD WHERE SURPLUSES ARE REGARDED AS A MARK OF ECONOMIC VIRTUE AND DEFICITS A MARK OF ECONOMIC PROFLIGACY. NEITHER OF THESE IS NECESSARILY TRUE BUT THE INEVITABLE REACTION OF SOME DEFICIT COUNTRIES HAS BEEN TO ADOPT POLICIES OF CUMULATIVE DEFLATION AND TRADE RESTRICTION.

7. FOURTH, THE VERY SIZE OF THE OPEC SURPLUSES LEADS TO ENORMOUS FLOWS OF LIQUID FUNDS MOVING AROUND THE WORLD FINANCIAL SYSTEM SEEKING A SHORT-TERM HOME. ALL THIS, TAKING PLACE AT A TIME WHEN GOLD, SDRS AND STERLING ARE LESS IMPORTANT AS RESERVE ASSETS, HAS CREATED GREATER UNCERTAINTY AND INSTABILITY.

8. FIFTH, THE WESTERN INDUSTRIALISED COUNTRIES FACE
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INTENSE COMPETITION FROM THE NEWLY SUPER-COMPETITIVE DEVELOPING COUNTRIES, PRODUCING GOODS OFTEN AT A MUCH LOWER COST. NEW COMPETITION IN SHIPPING, STEEL, TEXTILES, ELECTRICAL GOODS, FOOTWEAR, CONSUMER GOODS AND OTHERS.

9. SOME WOULD ADD, AS A SIXTH SYMPTOM OF THE WORLD'S ILL HEALTH, THE DECLINE THROUGHOUT THE WESTERN WORLD IN RETURN ON CAPITAL. THE RESULT, IT IS ARGUED, IS THAT THE INCENTIVE TO INVEST IS NO LONGER THERE, AND THE LOWE INVESTMENT DEMAND LEADS INEVITABLY INTO A DOWNWARD SPIRAL.

10. THE WORLD'S ECONOMIC AND FINANCIAL SYSTEM MIGHT HAVE COPEDED WITH ONE OR TWO OF THESE FACTORS WITHOUT UNDUE STRAIN. BUT COMING ALL TOGETHER IN THE SPACE OF A FEWYEARS, THEY ARE AN EXPLOSIVE PACKAGE.

11. THE RESULTS SO FAR ARE CLEAR AND DISTURBING.
- A SLOWDOWN IN ECONOMIC ACTIVITY IN THE INDUSTRIAL-
ISED COUNTRIES IN 1977, EVEN COMPARED WITH THE
RELATIVELY DEPRESSED LEVELS OF 1976.

- ACCORDING TO THE GATT WORLD TRADE INCREASED BY

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INFO OCT-01 ISO-00 AGRE-00 CEA-01 CIAE-00 COME-00
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C O R R E C T E D C O P Y - T E X T (P A R A 1 3 .)

ONLY 4 PERCENT IN VOLUME IN 1977 AS AGAINST 11
PERCENT IN 1976: AND THEY FORECAST ONLY ANOTHER
4 PERCENT INCREASE IN 1978.
- WELL OVER 16 MILLION OUT OF WORK IN OECD COUNTRY
- SIGNS OF GROWING PROTECTIONIST PRESSURES,
WITH BRITAIN EXPORTING 21 PERCENT OF ITS GNP
AMONG THOSE AT RISK. SOME OF THE POORER LESS DE-
VELOPED COUNTRIES WITH FORMIDABLE BALANCE OF PAY-
MENTS PROBLEMS, FACED WITH EVEN FURTHER RE-
STRICTIONS.

12. FORTUNATELY THERE IS A GROWING RECOGNITION AMONG
WORLD LEADERS THAT WE CANNOT LET MATTERS DRIFT. YESTER-
DAY STEPS WERE TAKEN BY THE GERMAN AND AMERICAN GOVERN-
MENTS TO HELP BRING MORE STABILITY INTO THE EXCHANGE MAR-
KETS. THIS AGREEMENT DEMONSTRATES AN INTENSIFIED WILLING-
NESS TO COOPERATE INTERNATIONALLY. AND IT GIVES TIME TO
ENABLE FURTHER SOLUTIONS TO BE FOUND.

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13. AT PRESENT THE DOCTORS ARE PRESCRIBING DIFFERENT REMEDIES ACCORDING TO WHETHER THEY SIT IN WASHINGTON, BONN, LONDON, PARIS OR TOKYO. EACH COUNTRY HAS ITS OWN PRIORITIES AND ITS OWN PROPOSALS FOR SOLUTIONS. FORTUNATELY THEY WILL ALL BE TAKING PART IN A SERIES OF MEETINGS THAT WILL BE HELD DURING THE NEXT FEW MONTHS AMONG FINANCE MINISTERS AS WELL AS HEADS OF GOVERNMENTS. WE CANNOT LET THIS OPPORTUNITY GO. WE MUST FIND AGREEMENT AMONG US.

14. THE LEADING NATIONS OF THE WORLD MUST DECIDE TO MOVE FORWARD IN CONCERT. WE MUST ACT IN PARTNERSHIP BY TAKING MEASURES THAT WILL REVERSE THE PRESENT TRENDS IN TRADE, GROWTH, INSTABILITY AND UNEMPLOYMENT. SUCH MEASURES WILL BE IMPORTANT FOR THEMSELVES. BUT JUST AS IMPORTANT WILL BE THEIR EFFECT ON THOSE IN TRADE AND INDUSTRY.

15. ONE OF THE PRESENT INGREDIENTS IN SHORT SUPPLY THROUGHOUT THE WORLD IS CONFIDENCE. AGREED INTERNATIONAL COLLECTIVE ACTION WILL BRING A NEW CONFIDENCE TO THE WORLD.

16. I HAVE PUT FORWARD FIVE ITEMS FOR AN AGENDA THAT COULD PRODUCE A PLAN OF INTERNATIONAL ACTION TO BOOST CONFIDENCE. THOSE ITEMS ARE:

- 1) HIGHER GROWTH;
- 2) MEASURES TO PRODUCE GREATER STABILITY IN THE CURRENCIES;
- 3) LONG-TERM CAPITAL FLOWS INCLUDING AID FOR THE LESS DEVELOPED COUNTRIES;
- 4) CONSERVATION POLICIES FOR ENERGY WITH THE ESPECIAL NEED FOR THE US TO FOLLOW UP PRESIDENT

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CARTER'S LEAD;

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DODE-00 EB-08 FRB-01 H-02 INR-10 INT-05 L-03
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5) MORE TRADE TO AVOID THE SPREAD OF WORLD
PROTECTIONISM.

17. A BALANCED PROGRAMME RESULTING FROM AGREEMENT ON
THESE MATTERS FOLLOWED UP BY COLLECTIVE ACTION WOULD DO A
GREAT DEAL TO EXTRICATE THE WORLD FROM THE PRESENT RE-
CESSION. DIFFERENT COUNTRIES WOULD, OF COURSE, TAKE
DIFFERENT FORMS OF ACTION AT DIFFERING TIMES, DEPENDING
ON THEIR CIRCUMSTANCES.

THE IMPORTANT THING IS THAT WE SHOULD AGREE ON A
COMMON PROGRAMME AND THEN ADHERE TO IT. THERE IS ROOM
FOR MANOEUVRE IN THE WORLD NOW WITHOUT CREATING
ANOTHER INFLATIONARY SURGE. THE LEADING INDUSTRIAL COUN-
TRIES MUST FILL THE PRESENT VACUUM IN ECONOMIC ACTION.
WE NEED TO BEHAVE AS PARTNERS, FOR NO ONE OF US CAN SOLVE
THESE PROBLEMS ON OUR OWN, AND IT WOULD BE A BETRAYAL OF
THE WORLD'S PEOPLE IF WE WERE TO ABDICATE OUR RESPONSIBI-
LITIES AND ALLOW THE SITUATION TO DRIFT. THE WORLD IS
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NOT IN THE GRIP OF IMMUTABLE ECONOMIC FORCES. WE CAN
OVERCOME THEM. WHAT WE NEED IS THE POLITICAL WILL.

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